THE PROPERTY REPORT

September 2018

PROPERTY REPORT

September has arrived, and we have officially entered 2018's spring selling season. This year has not only brought change to the Australian property market but to our finance and political sectors as well. And while the shift in the property market has caused some trepidation, this moderation was anticipated and necessary as outlined by Australia's key economic leaders.

The newly appointed Treasurer, Josh Frydenberg, spent his first days in the top job meeting with chief regulators to assess Australia's current economic health, including Reserve Bank of Australia governor Philip Lowe and Australian Prudential Regulation Authority chairman Wayne Byres. Dr Lowe has gone on the record several times throughout August impressing the adjustment in the property market on the eastern seaboard is needed, particularly in Sydney where home prices were fast outpacing wage growth. Similarly, Mr Byres described the housing market adjustments as "orderly", with the general sentiment these market changes will protect a sustainable housing future.

Across the nation, changes in home values have varied. The combined Brisbane and Gold Coast values have increased by 0.89 per cent and Adelaide by 0.97 per cent when compared to the same time last year, according to CoreLogic data. Sydney, Melbourne and Perth have all experienced annual drops in home values as of September, 5.64 per cent, 1.67 per cent and 2.05 per cent respectively. It is not surprising Sydney has experienced the greatest reduction, given its value increase of 75 per cent from 2012 to 2017.

On the west coast, Perth has not experienced the same property uplift in recent years and the conditions have remained relatively unchanged. In good news though, the mining sector is picking up with strong economic forecasts, this sector traditionally has a knock-on effect to the housing market.

Back to the east, we have returned to a normal market and this is reflected in the auction clearance rates that sit at a weighted national average of 55 per cent. In the recent boom they may have sat consistently around 70 per cent nationally, but this is not an historical norm.

If you look at post-auction clearance rates, these are much higher than what is reflected on the day. This is due to the continued divide between vendor's lingering 'boom price' expectations and buyer's cautious pricing approach. There are buyers wanting to make a purchase and vendors wanting to sell, but properties are unnecessarily passing in due to this pricing disconnect.

As we move into the much-anticipated spring selling season I recommend vendors listen closely to their agent's pricing advice. There is more competition in the market today and your property is not for sale in isolation – make sure due diligence is done and that your property is assessed with competing local properties. A realistic price guide and reserve will attract more buyers and create natural competition, this is a better outcome than a home left languishing on the market.

Our team is here to help so please let one of our experienced agents know if you require any market advice or property assistance.

Matt Lahood,
CEO The Agency

Capital city auction statistics CoreLogic data week ending 6th September

City	Clearance Rate	Total Auctions	CoreLogic Auction	Cleared Auctions	Uncleared Auctions
Sydney	53.8%	664	541	291	250
Melbourne	57.0%	805	719	410	309
Brisbane	43.3%	112	90	39	51
Adelaide	58.7%	81	75	44	31
Perth	52.6%	25	19	10	9
Tasmania	n.a.	5	4	1	3
Canberra	63.5%	56	52	33	19
Weighted Average	**55.0%**	**1,748**	**1,500**	**828**	**672**
Regional					
Gold Coast	25.0%	48	40	10	30

Cover Photo - 44 Goodhope Street, Paddington

SYDNEY


41 Darling Point Road, Darling Point

Auction clearance rates in Sydney have been hovering between 50 to 60 per cent, but as highlighted in our June report if you look at the 45-day clearance rate, it increases by 20 to 30 per cent. There are active buyers, and the average number of people coming through our open homes and bidding at auction is still high – these are not indicators of a tough market.

"We're seeing some buyers not participate at auction because they think the clearance rates are an indication of a bad market, which is not the case," says Thomas McGlynn, The Agency's Director of Sales & Chief Auctioneer. "They regularly end up in post-auction negotiations, but if they had participated at auction they would have had less competition."

An interesting observation by Thomas McGlynn is that Sydney's price growth supercycle of the past five years continued 18 months longer than it should have, growing another 10 to 15 per cent in that time. This gap is where the Sydney market can realign. Owners who bought in the last 18 months generally cannot expect to get exactly what they paid if they sold now, but long term, we are set up for healthy and stable growth.

CoreLogic figures show Sydney house values falling 7.13 per cent over the last year, but units have not been as affected at -2.17 per cent. We put this down to the fact many new units are still settling, creating a delayed response. We probably won't see the impact on units until the end-of-year figures are released.

We're still seeing impressive results in the prestige market, due to low stock levels, such as Sandie Dunne's record-breaking sale in Mosman for $25 million. Areas that have shown steady growth over the past decade or two are still performing well, including blue chip suburbs Mosman, Paddington, Woollahra, Centennial Park and the eastern beaches.

Suburbs that experienced unprecedented growth over the last three to four years have been hit harder, as have suburbs with a predominance of units, like Kensington, parts of Alexandria or Zetland. But even in outer areas where the market has fallen more dramatically, if an owner has realistic expectations there are great prices being achieved. An example is Catherine Murphy's sale of a Carlingford deceased estate at $115,000 over reserve with 12 registered bidders at auction.

PERTH


41 North Road, Bassendean

At the top end of the Perth market we're continuing to see a gradual increase in enquiries. We have sold a number of properties in million-plus suburbs, and there's a confidence growing in this market. However, it really is a two-speed market at this time, with mortgage belt properties still under strain.

In outer suburbs, prices have remained unchanged for a number of years and there's restricted buyer interest. While these properties represent great value right now, the lower end of the market has been impacted by the lending changes, and the stagnant prices means there is little sense of urgency.

"Overall there are good properties in Perth across all price ranges, representing good value, but there's little impetus to buy with low capital growth," explains Stuart Cox, The Agency's General Manager in Perth.

"People are spending their discretionary income on lifestyle and eating out, with the expectation that the market will continue to be flat, so it's a hard cycle to break. If people could see past this there is potential to buy great value properties," says Stuart Cox. "The top end does seem to be turning over. More people are seeing it's a good time to spend $1 million on a property."

CoreLogic reports dwelling values were down 0.7 per cent over the June quarter in Perth. While Domain Group's June Quarter House Price Report showed that the median house price fell, but median unit prices rose, demonstrating the first year-on-year growth in three years. Traditionally Perth has been a strong investor market, but recent enquiries have been coming from owner-occupiers like downsizers. We've seen strong demand for high-end and larger apartments within the CBD, while properties outside the CBD are slower. A lack of supply is likely in the next six to 12 months with development approvals down.

Perth's property market has been closely linked to mining activity and WA population figures. Recent research by Aussie Home Loans and CoreLogic shows Perth ranked third among the capitals nationally over the past 25 years for percentage growth. Previous mining booms caused such rapid growth that in 2007 Perth hit a median price similar to Sydney. Things could be shifting in a few months given the thousands of new mining jobs recently announced.

MELBOURNE

With available properties down in the first part of the calendar year, and pent up demand from the winter season, buyers and sellers who act early will reap the biggest rewards. People become more motivated as the weather starts to change and this year is no different, we expect the middle of September to be a hive of activity prior to football finals and the last term break of the year.

CoreLogic has Melbourne's auction clearance rates hovering around the same as Sydney's at 57 per cent week ending September 6. The rates have been relatively stable for a few months now and increase considerably when reviewing the two-week post-auction period.

We are seeing confidence in certain inner-city pockets, with more buyers realising this market presents good opportunities for an upgrade to higher price points. For example, a double-fronted unrenovated Victorian home on 260sqm of land at 63 Mills Street, Middle Park, sold for $3,050,000.

Melbourne has recorded some of the biggest drops in prices across capital cities, in part due to tighter lending criteria but also due to buyers sitting back and assessing the changing market. Properties that are well-presented, marketed appropriately and priced using the most recent and relevant results are still achieving good prices.

While much speculation has taken place around a potential oversupply of units, this has not become an issue due to population growth. In fact, according to CoreLogic data, Melbourne units have performed better than houses. This is driven in part by boutique luxury apartment blocks that are attracting the downsizer and empty nester markets. Larger blocks of smaller apartments are taking longer to sell.

This bodes well for the latest series of *The Block;* The Agency has been appointed to sell Bianca and Carla's stunning penthouse.

"We are thrilled to be representing this north-facing penthouse with city views and bay glimpses in an iconic boutique apartment building," says Peter Kakos, General Manager of The Agency Victoria. "It's rare and it's unique."

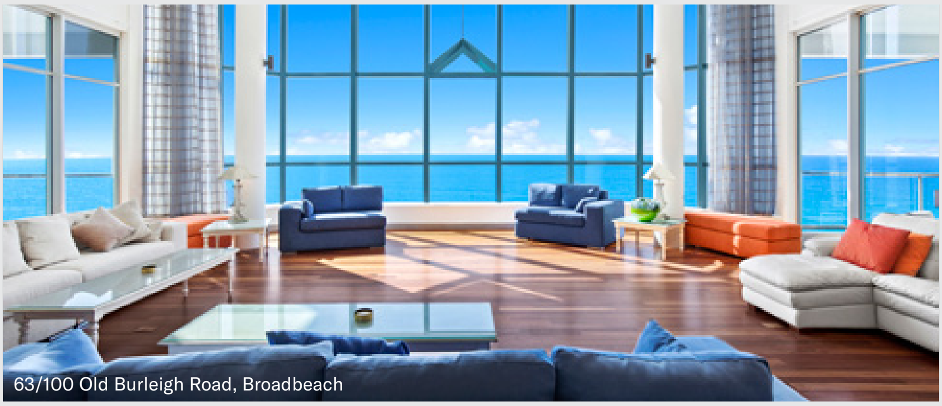
5/34 Fitzroy Street, St Kilda

GOLD COAST

According to the Real Estate Institute of Queensland (REIQ) the Gold Coast has the highest annual median house price growth in Queensland at six per cent, with a median house price of $620,000. Houses are worth $35,000 more than they were a year ago, with units trailing at 1.9 per cent growth and a median unit price of $428,000.

While the market is steady right now, we have observed lower listing volumes, tighter stock levels and less active open house inspections. This is likely to be driven in part by the decreased interest from investors and interest-only borrowers resulting from the significant changes to lending criteria, with pre-approved finance rates down.

At the top end, strong interest continues in Gold Coast beachfront property and penthouse apartments despite the traditional market slow down across the winter months. There are more cranes in the sky as high-rise apartment development occurs in tourist hubs like Surfers Paradise, Broadbeach and Mermaid Beach. Development blocks are becoming scarce, and many predict a wave of quality over quantity in these new projects.



63/100 Old Burleigh Road, Broadbeach

"The Gold Coast could accommodate triple its population of just over 600,000, and is certainly poised for real growth," veteran Gold Coast agent John Natoli says. "But the Gold Coast market still relies heavily on out-of-town investors and given the property market is cooling in interstate capital cities, these investors seem to have less confidence overall. This could have a flow-on effect on the Gold Coast market for a little while."

Compared to the substantial value rises in Sydney and Melbourne over the past decade, capital gains on the Gold Coast have been lower or negative in some areas. A recent CoreLogic report shows as of January 2018 regional Queensland is down 5.5 per cent from its peak in March '08. In positive news though, the combined Gold Coast and Brisbane home value growth over the last year is up 0.89 per cent, bucking the national downward trend.

The Queensland Government has predicted significant population growth for the Gold Coast with a projected increase of over 200,000 people by 2031. The Gold Coast's coveted lifestyle and affordability will continue to attract migration from Sydney and Melbourne and the increasing home values will bolster investor interest.

FINANCE WITH JOHN KOLENDA

Official interest rates have now been maintained at their record low of 1.5 per cent for two years. And with the Reserve Bank of Australia conscious of the fragile domestic economy and the cost of funding issues that have been resulting in lenders moving their rates independently of the RBA, there's every chance the cash rate will stay the same for another year.

The circumstances which have prompted the RBA to stay on the interest rate sidelines for a record-breaking two years see no signs of change. There would need to be a dramatic improvement in the economy for the central bank to lift the cash rate. It is also very aware of the potential negative impact this will have on consumer sentiment.

Despite the cash rate being kept at record lows, this is still a very confusing and challenging time for borrowers. Cost of funding issues have forced some lenders to increase the rates of certain home loan products by more than 30 basis points, while other lenders wary of the scrutiny of the Hayne Royal Commission are playing a wait-and-see game.

In this climate, it's more important than ever for mortgage holders to be on top of their home loan. With the expert assistance of a mortgage broker they can make sure they are getting the best deal possible. The main message is not to be complacent about your home loan and allow yourself to be a mortgage prisoner.

While it appears to be a challenging time for home loan customers, always remember that lenders have to compete vigorously for your business. There are still deals to be done, with a broker best placed to secure the most appropriate product.

John Kolenda, Managing Director
1300HomeLoan

INVESTOR'S CORNER WITH MARIA CARLINO

The national vacancy rate peaked at 2.3 per cent in June and dipped slightly to 2.2 per cent in July. While the market is flatter in Melbourne, it peaked across Sydney with a 13 year high of 2.8 per cent in June, as reported by SQM Research.

With new housing stock being completed across wider Sydney, vacancy rates may rise further, which is welcome news for tenants but not for landlords. However, in areas within five to 10km of the CBD we expect the vacancy rate to plateau out.

In late July we saw stock levels across all our offices come down by 30 per cent, due to an increase in tenant interest. With the end of school holidays families were back in the market in force, resulting in a doubling of attendee numbers at open homes.

We also cracked our record for leasing with a 31 per cent uplift of new tenancies from May to June.

Higher end properties are particularly in demand right now. For instance, we have a wait list for tenants looking to rent family homes priced around $4,000 per week in Sydney's Eastern Suburbs. These renters are usually families that are in between buying and selling and haven't yet found their new home to buy, or they're happy to spend on rent and own an investment property of their own.

For example, a large well-appointed apartment with harbour views, at Gladeswood Gardens in Double Bay attracted 10 interested parties before leasing for $3,500 per week within seven days to a family of four.

We've also forged an exciting partnership with Superestate, the first non-SMSF to invest in residential property. Superestate's vision is to build a diversified portfolio of high-quality Australian residential property for super members, with dual income streams from positive rental yields and long-term equity growth. The Agency will be partnering nationally on Superestate's property management.

Our first Superestate property, 63 Stafford Road, Stanmore, attracted eight groups, with four interested parties and leased for the asking price of $1,250 per week to a professional couple. Superestate superannuation is proving a very attractive proposition for those looking to enter the property market but who have not been able to.

Maria Carlino, National Director of Property Management

NEW PROJECTS WITH STEVEN CHEN

The Agency Projects team has seen steady sales throughout the eastern seaboard over the last quarter and we've also observed significant competitiveness in the local buyer market.

That said, buyers are increasingly concerned about changes to lending, which is making them more cautious. The Agency Projects has consciously positioned itself to help buyers with financing by offering finance solutions and brokers to assist in pre-, post- and re-financing.

Another trend we're seeing is strong interest in entry level apartments and affordable house and land packages in the Gold Coast, Sydney and Melbourne coming from South East Asia, particularly Malaysia, Indonesia and Singapore.

We're also seeing new developments scale down in scope. The trend is a shift away from larger mega-towers towards a sweet spot in developments of 80 to 100 apartments. Smaller developers are seeking land for boutique projects of 20 to 40 apartments.

Development hot spots right now include Sydney's Eastern Suburbs and Lower North Shore, following the train line from St Leonards to Hornsby. In Queensland it's the Gold Coast, with significant activity on Hedges Avenue, Main Beach and within Surfers Paradise. Melbourne's Southbank and CBD have significant projects planned, including the upcoming Southbank by Beulah.

Quality is paramount in this marketplace, with buyers gravitating towards experienced developers and well-known builders, expecting superior finishes and services. Building facilities like 24-hour concierge, gyms, gardens and communal areas not only increase the luxe factor and appeal for owner-occupiers, they add to a property's investment value and increase overall demand.

Development sites and acquisitions are still at the forefront of our business unit. We are currently negotiating around 1,600-unit developments in Sydney's south-west corridor and Eastern Suburbs. Developers want to enter these markets by late 2019 to 2020 and need stock in advance of forecasted growth in order to meet future demand timelines.

In the last quarter, The Agency Projects team secured 110 hectares of land worth around $35 million, at Marshall Mount, a new growth corridor near Wollongong released by the State Government. Approximately 400 house and land lots will be released to the market in 2020 with a gross value of $280 million. We are also in the last stages of finalising a further $45 million worth of house and land packages around Wollongong. New master planned suburbs will emerge, complete with green spaces and beautiful streetscapes.

Affordability is key, and we've already seen strong interest. We expect to see demand come from nearby Campbelltown and Ingleburn in Sydney's south west and from Sydney more broadly. Families and individuals are prepared to travel 30 minutes south to a new home that is less expensive – and if they're selling an existing home they'll have excess funds in the bank as a result.

Steven Chen,
Director of Projects

The Exchange, 904 Botany Road, Mascot

New South Wales

The Agency Bondi Junction
02 8383 9999

The Agency Central Coast
02 8376 9101

The Agency Coogee
02 8383 9999

The Agency Eastern Suburbs
02 8376 9101

The Agency Epping
0422 975 795

The Agency Hunter Valley
0429 139 260

The Agency Inner West
02 8376 9190

The Agency Mosman
02 9953 7333

The Agency Neutral Bay
02 9953 7333

The Agency Southern Highlands
02 8376 9190

The Agency Thirroul
02 4268 9800

The Agency Wollongong
02 4224 6688

Queensland

The Agency Gold Coast
07 2101 2250

Victoria

The Agency Melbourne
03 8578 0388

Western Australia

The Agency Perth
1300 243 629

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